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2129 Rayburn House Office Building
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December 1, 2004

Mr. Franklin D. Raines
Chairman and CEO
Fannie Mae
3900 Wisconsin Avenue, N.W.
Washington, D.C. 20016-2892

Dear Mr. Raines:

Pursuant to its responsibility and authority under rules X and XI of the Rules of the Committee on Financial Services for the 108th Congress, the Committee and its subcommittees are continuing their oversight of Fannie Mae.

It has come to our attention that Fannie Mae has been ordered by the U.S. Court for the Western District of North Carolina to forfeit \$6.5 million in funds that were "criminally derived" from illegal activities by First Beneficial Mortgage Company. We are very concerned that the U.S. taxpayers may have been put at risk when certain loans were sold by First Beneficial Mortgage to Ginnie Mae after many of the same loans were determined to be fraudulent by executives at Fannie Mae. Understanding that Fannie Mae was created to provide liquidity to the U.S. mortgage market, it is our hope that Fannie Mae would actively seek to prevent such fraud.

Please provide the Committee with responses to the following questions by January 14, 2005:

1. Who at Fannie Mae was responsible for approving First Beneficial Mortgage Company as a qualified lender? When did Fannie Mae discover that the loans in question were fraudulent, and what actions did it take to seek repayment? Which Fannie Mae executives had knowledge of the fraudulent loans?
2. When did Fannie Mae learn that the First Beneficial Mortgage Company intended to sell the fraudulent mortgages to Ginnie Mae in order to repay Fannie Mae? Did Fannie Mae seek to inform OFHEO, HUD, Ginnie Mae, or the Department of Justice that First Beneficial Mortgage Company was attempting to sell fraudulent loans? If not, why not?
3. What actions does Fannie Mae take when it discovers that a lender has sold the enterprise a fraudulent mortgage? Does Fannie Mae notify the proper State or Federal authorities? Does Fannie Mae suspend lenders that sell fraudulent mortgages? Does Fannie Mae disclose the fact that it has suspended a fraudulent

lender putting others on notice of potential criminal activity? If Fannie Mae does not make such disclosure, why does it not?

4. Fannie Mae claims to have a highly sophisticated system for approving lenders and determining the quality of the loans it purchases. Please describe this system for the Committee, and how this system failed in the case of First Beneficial Mortgage Company. What changes is Fannie Mae making to ensure that this failure does not occur again?

5. Is Fannie Mae aware of any other instances where an entity of the Federal government was sold fraudulent loans held at one time by the enterprise?

6. Were the loans purchased from First Beneficial Mortgage Company counted toward Fannie Mae's efforts to reach its affordable housing goals? If so, has Fannie Mae adjusted its affordable housing goals, removing the fraudulent loans from its calculation?

Thank you for your prompt and complete response to these questions. Should you or your staff have any questions, please contact Mr. Kevin MacMillan of the Committee staff at 202-225-7502.

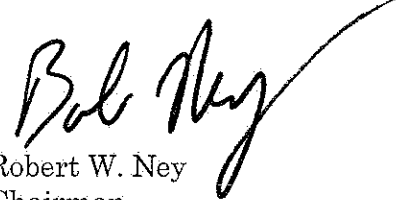
Yours truly,



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